



REPORT BY THE MUNICIPAL MANAGER FINANCE PORTFOLIO COMMITTEE

ITEM 1

FINANCE ANNUAL BUDGET 2014/2015

1. **PURPOSE**

The purpose of this report is to present the draft annual budget to Council for 2014/2015 financial year for approval.

2. **BACKGROUND**

In terms of section 16 of the Municipal Finance Management Act N0 56 of 2003 the Mayor of the municipality must table the annual budget of the municipality at a council meeting at least 90 days before the start of the budget year.

This report tabled here today is meant to comply with the specified legislation requirements mentioned above. Section 17 of the act also states that the budget of the municipality must be a schedule in a prescribed format as attached in this report.

3. **DISCUSSION**

The budget for 2014/2015 is compiled when the municipality is facing serious liquidity issues. The municipality has also faced serious community protest in Bekkersdal which are influence by number of reasons and service delivery is mentioned as some of the reasons. This conditions then requires that when the council consider the budget should take those issues into consideration and ensure that this budget respond according to those issues.

We are also expected that we should consider a budget that is fully funded and that its reflective of the community needs. The budget preparation process for this financial year was compiled on a zero based approach and IDP was a key document that was used to influence the key performance indicators in this budget.

The source of the expenditure in this budget are programmes and projects identified in the IDP. The budget is used as a tool to finance the IDP and assess whether the IDP is realistic and implementable. We were successful in soliciting inputs from departments that will ensure that we align our budget to the IDP and the municipal strategic plan.

The budget is meant to achieve the following goals as outlined in the IDP:

1. To promote Integrated sustainable development
2. To ensure the provision of sustainable basic service to communities
3. To promote local economic and social development.
4. To provide a safe and healthy environment
5. To provide a democratic and accountable government for local communities
6. To ensure internal municipal business excellence

Budget Assumptions

- CPI as at January 2014 was 5.8%.
- Increasing labour costs.
- Increase in fuel costs
- Prime rate is at 9%
- Negative credit rating.
- Service provision to informal settlement.



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Key Budget Policy Changes

- The free basic electricity and water be provided to approved indigent consumers.
- The municipality should recover all costs relating to service they delivery.
- The credit control and debt collection policy should enable the municipality to collect at least 80% of billed revenue and 25% of outstanding debts.
- New Valuation Roll to be adopted and increase revenue from mining properties.
- Find a way to bill informal settlements for services rendered. The proposal is to charge them R100 for each VIP suction to recover some of the cost incurred in the service we provide.

Budget Summary

Description R thousands	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<u>Financial Performance</u>							
Property rates	36 195	36 195	36 195	36 195	52 195	55 259	58 503
Service charges	255 630	194 694	194 694	194 694	236 098	290 533	313 168
Investment revenue	578	578	578	578	500	529	560
Transfers recognised - operational	115 514	115 514	115 514	115 514	125 884	138 102	147 683
Other own revenue	50 472	54 861	54 861	54 861	56 382	59 692	63 196
	458 389	401 842	401 842	401 842	471 059	544 115	583 110
Total Revenue (excluding capital transfers and contributions)							
Employee costs	126 583	123 040	123 040	123 040	136 495	145 231	154 525
Remuneration of councillors	10 865	9 290	9 290	9 290	11 626	12 370	13 162
Depreciation & asset impairment	8 529	62 529	62 529	62 529	75 000	80 075	85 507
Finance charges	9 301	15 070	15 070	15 070	1 836	1 700	1 640
Materials and bulk purchases	184 262	162 126	162 126	162 126	174 262	188 884	204 736
Transfers and grants	-	-	-	-	-	-	-
Other expenditure	108 394	62 257	62 257	62 257	82 027	97 387	103 060
Total Expenditure	447 934	434 312	434 312	434 312	481 246	525 647	562 630
Surplus/(Deficit)	10 455	(32 470)	(32 470)	(32 470)	(10 187)	18 468	20 480
Transfers recognised - capital	72 482	(2 746)	(2 746)	(2 746)	(7 150)	(20 000)	(30 000)
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-
	82 937	(35 216)	(35 216)	(35 216)	(17 337)	(1 532)	(9 520)
Surplus/(Deficit) after capital transfers & contributions							
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-
	82 937	(35 216)	(35 216)	(35 216)	(17 337)	(1 532)	(9 520)
Surplus/(Deficit) for the year							
	82 937	(35 216)	(35 216)	(35 216)	(17 337)	(1 532)	(9 520)
<u>Capital expenditure & funds sources</u>							
Capital expenditure	82 594	77 793	77 793	77 793	63 505	57 260	67 175
Transfers recognised - capital	72 482	72 482	72 482	72 482	56 355	57 260	67 176
Public contributions & donations	-	-	-	-	-	-	-
Borrowing	2 565	2 565	2 565	2 565	-	-	-
Internally generated funds	7 547	2 746	2 746	2 746	7 150	-	-
Total sources of capital funds	82 594	77 793	77 793	77 793	63 505	57 260	67 176
<u>Financial position</u>							
Total current assets	76 865	80 902	96 851	96 851	70 667	106 128	133 867
Total non current assets	1 388 788	1 497 969	1 497 969	1 497 969	1 486 474	1 569 482	1 657 362
Total current liabilities	133 871	87 568	87 568	87 568	48 904	36 515	23 061



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Total non current liabilities	37 079	37 079	37 079	37 079	47 268	40 952	35 123
Community wealth/Equity	1 294 703	1 470 173	1 470 173	1 470 173	1 491 533	1 598 144	1 733 045
Cash flows							
Net cash from (used) operating	85 659	117 811	117 811	117 811	77 633	87 366	99 621
Net cash from (used) investing	(81 862)	(77 061)	(77 793)	(77 793)	(62 305)	(57 260)	(67 175)
Net cash from (used) financing	(9 870)	(9 870)	(9 870)	(9 870)	(7 052)	(6 607)	(6 115)
Cash/cash equivalents at the year end	(16 693)	20 259	19 528	19 528	27 803	51 303	77 633
Cash backing/surplus reconciliation							
Cash and investments available	2 919	41 501	57 450	57 450	33 303	87 666	114 496
Application of cash and investments	71 440	13 188	13 188	13 188	2 550	9 085	4 220
Balance - surplus (shortfall)	(68 521)	28 313	44 262	44 262	30 754	78 582	110 276
Asset management							
Asset register summary (WDV)	1 323 291	1 395 666	1 395 666	1 486 474	1 486 474	1 569 482	1 657 362
Depreciation & asset impairment	8 529	62 529	62 529	75 000	75 000	80 075	85 507
Renewal of Existing Assets	705	505	505	505	-	-	-
Repairs and Maintenance	11 558	11 558	11 558	30 714	30 714	29 735	30 359
Free services							
Cost of Free Basic Services provided	71 552	71 552	71 552	8 366	8 366	71 552	71 552
Revenue cost of free services provided	72 939	72 939	72 939	10 458	10 458	72 939	72 939
Households below minimum service level							
Water:	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-

For detailed budget refer to Annexure A

Westonaria Local Municipality Capital Budget 2014 - 2017				
		2014-15	2015-16	2016-17
	Ward	R	R	R
MIG budget				
Sanitation Greater Westonaria {Protea Park outfall sewer line }	Ward 5	21 879 541.12		
Simunye Internal Roads {Phase 3}	Ward 8	8 000 468.97	4 486 918.21	5 000 000.00
Zuurbekom Multi-Purpose Sport and Recreation Communities Centre Rehabilitation {Combi Courts}	Ward 16	7 316 234.97	8 000 000.00	
Bekkersdal Cemetery	Ward 1, 9, 10, 11, 12, 13, 14 & 15	4 000 000.00		
Prepaid-metwrs (Ph4)	Ward 5, 6, 7, 8, 12 & 13		2 000 000.00	9 247 965.00
Simunye MPS & RCC (Gymnasium)	Ward 7		1 534 699.00	5 000 000.00
Westonaria Sport Complex (Phase 2)	Ward 4			2 112 938.00
Construction of waste processing plant (Phase 2)	Ward 5		4 487 914.00	4 000 000.00



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Hannes van Niekers Access road	Ward 5		6 000 000.00	9 000 000.00
Various parks (Development of Maselpoort park)	All wards			4 951 292.00
Construction of transfer stations in Westonaria	All wards	7 578 654.94	17 950 469.00	7 063 005.00
		48 774 900.00	44 460 000.21	46 375 200.00
DAC				
Procurement of books		580 000.00	800 000.00	800 000.00
DME				
Westonaria Borwa Electrical Infrastructure house connection	Ward 6	7 000 000.00	12 000 000.00	20 000 000.00
OWN FUNDING		7 150 000.00	-	-
ADMIN				
Roofing		500 000.00	0	0
Furniture and fittings		270 000.00	0	0
			0	0
ICT				
Computers to be replaced		600 000.00	0	0
SPORTS AND RECREATION				
Horticultural equipment		750 000.00	0	0
POLITICAL SERVICES				
PA System		30 000.00	0	0
ELECTRICITY				
Installation of smart meters system	Ward 5, 6, 7 & 8	4 000 000.00	0	0
Street lights	Ward 1, 2, 3, 4, 5, 6 & 7	1 000 000.00	0	0
		63 504 900.00	57 260 000.21	67 175 200.00

Revenue



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Grants

	2014/2015	2015/2016	2016/2017
Operating Grants	120 333 000	131 262 000	140 443 000
Equitable Share	113 718 000	126 795 000	135 725 000
MFMG	1 450 000	1 500 000	1 700 000
MSIG	934 000	967 000	1 018 000
EPWP	2 231 000	-	-
ISDG	2 000 000	2 000 000	2 000 000
Infrastructure Grants	58 342 000	58 800 000	68 816 000
MIG	51 342 000	46 800 000	48 816 000
INEP	7 000 000	12 000 000	20 000 000
Total Grants	178 675 000	190 062 000	209 259 000

The municipality will be receiving a total of R178 million in grants for the 2014/2015 financial year. In that allocation R120 million is for operations and R58 million is for capital projects. The grants will increase to R190 million in 2015/2016 and R209 million in 2016/2017. The grants income constitute 25% of the operating revenue and 85% of the total capital funding.

Trading Services

Electricity Services

We have budgeted a revenue of R104 million for the electricity distribution services. We have budgeted for a 28% revenue increase in 2014/2015. The increase consists of 8% expected increase in tariffs for electricity consumption. We also propose a basic charge of R98 that will be charged to each household to assist with the maintenance and upgrade of the electricity network. The basic charge will also fund the streets lighting cost and replacement of capital infrastructure. The intention is that the service should breakeven in the 2014/2015 financial year.

We also propose that 50kwh should be provided for free to indigent consumers.

Water Services

We have budgeted a revenue for water service for R131 million. This amount includes supply of water to bulk consumers and normal consumers. We are proposing an 8% to 27% increase in tariffs. We will be charging water on a block tariffs basis the low tariff will be R10.33 per KL increasing to R14.85 per KL. The tariffs are meant to benefit poor as they are presumed to be low users of water. The tariffs discourage the over use of water and promote water conservation.

We are also proposing that indigent consumers should receive 6kl free use of water. The increase in tariffs also wants to recover cost relating to provision of service to informal settlement. The municipality is incurring between R10 to R20 million annually in the provision of services to informal settlements.

Waste Water Services

We have budgeted R19 million as revenue for waste water services. We are proposing a 60% to 200% increase in tariffs so that we can recover all the costs relating to operating this service. We plan to breakeven on this service to ensure that we recover all cost relating to this service. We are also proposing a cost to empty VIP toilets in informal settlement to R65 per suction. This will ensure that we recover at least some cost relating to the service we provide.



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Waste Management

We have budgeted R13 million as revenue for waste management services. We are proposing a 20% to 177% increase in tariffs. The tariffs are still below the cost of rendering the service especially because we render the service to informal settlement who are not paying for the service they receive.

Total Revenue

The projected revenue for 2014/2015 is R471 million. The increase is due to increase in operational grants as compared to current financial year of R10 million, we have also estimated an increase of R20 million in property rates, and R30 million increase in service charges. The increase in service charges is influenced by proposed tariffs increases. If council does not approve tariffs as they are then we will have to reduce the operating income.

Operating Expenditure

Employee Costs

We are proposing a seven percent increase in the salaries of both staff and councillors. We did not budget for any new position but this might change as we are currently reviewing the structure and realigning the organisational structure to IDP objectives and ensuring that we operate an effective and efficient administration. We are budgeting R147 million as employee cost for 2014/2015. The cost consist of employee cost of R136 million and R11 million for councillors.

Bulk Purchases

We have budgeted R174 million for bulk purchases. We were conservative in the budget for this figure and we plan to revise this budget as soon as the loss control strategy shows results. As we mentioned before that 33% of this cost is lost in unbilled revenue and this creates a serious challenge for the municipality. We need to improve on this costs if we want to restore stability in the finances of the municipality. We want to recover all the cost relating to this service and this increases the tariffs for water services.

Debt and Assets Impairment

We have provided R25 million for subsidy to indigent consumers and R75 million for the depreciation of assets. The increase in municipal assets increases the operating costs of the municipality that's why the depreciation have increased by R10 million as compared to current year.

Finance Costs.

We have estimated that the finance costs for this current financial year will be around R1,8 million. This are the cost relating to current loans the municipality is servicing.

Bulk Purchases

We have estimated bulk purchases to increase to R174 million. We did not take into account measures to reduce material losses relating to water and electricity. What we are proposing is that we budget for the full cost of those services and if any savings are realised during the financial year they will influence the adjustment budget.



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The council should note that we loose substantial amount of money in this vote because of non billed revenue. Therefore concerted efforts should really be made to improve the performance of the water and electricity section in them being able to protect revenue and reduce the losses the municipality incurred on water and electricity.

Total Operating Costs

The municipality have budgeted R481 million as operating costs. This include non cash expenditure of R100 million relating to debt and assets impairment. The expenditure have increased by R50 million as compared to current financial year. The cash expenditure is R381 million.

Funding of the Budget

000	Revenue	Expenditure	Shortage
Operations	471 059	481 246	-10 187
Capital	63 505	63 505	0
Cash Flow	402 524	381 246	21 278

Our total operating budget reflects a deficit of R10.1 million. The deficit is mainly influenced by noncash items like debt impairment and assets impairment. This expenditure which is non cash needs to be taken into account when determining your operating cost and tariffs. In future we plan to fully fund all our operations including noncash items. This will enable the municipality to have sufficient reserves and improve its infrastructure spending.

Impact of Tariff Increase on consumer accounts

		2013/2014	2014/2015	Difference
Low Income Household - Indigent				
Property Rates	R 100 000	R 83.33	R 150.000	R 66.67
Rebate	-60000	R -50.00	R -90.000	R -40.00
Electricity	150	127.5	137.7	R 10.20
Rebate	-50	-42.5	-45.9	R -3.40
Basic Charge	98		98	R 98.00
Rebate			-98	R -98.00
Water	6	0	61.98	R 61.98
Rebate	6		-61.98	R -61.98
Refuse		54.06	85	R 30.94
Rebate		-54.06	-85	R -30.94
Sewerage Basic		0	45	R 45.00
Additional		28.1	92.61	R 64.51
Rebate		-28.1	-137.61	R -109.51
	28%	R 118.33	R 151.80	R 33.47
		2013/2014	2014/2015	Difference
Middle Income Household				
Property Rates	R 450 000	375.00	675.00	300.00
Rebate	-45000	-37.50	-67.50	-30.00
Electricity	600	684.00	738.72	54.72



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Rebate		-42.50	-	42.50
Basic Charge	98	-	98.00	98.00
Water	25	221.35	258.25	36.90
Basic Charge			25.00	25.00
Refuse	600	54.06	85.00	30.94
Sewerage Basic		50.04	85.00	34.96
Additional		28.10	92.61	64.51
Rebate		-	-	-
	49%	1 332.55	1 990.08	657.53
		2013/2014	2014/2015	Difference
High Income Household				
Property Rates	R 1 000 000	833.33	1 500.00	666.67
Rebate	-45000	-37.50	-67.50	-30.00
Electricity	1200	1 656.00	1 788.00	132.00
Rebate		-42.50	-	42.50
Basic Charge	98	-	98.00	98.00
Water	50	512.60	516.50	3.90
Basic Charge			25.00	25.00
Refuse	1000	54.06	150.00	95.94
Sewerage Basic		78.76	150.00	71.24
Additional	3	84.30	277.83	193.53
Rebate		-	-	-
	41%	3 139.05	4 437.83	1 298.78

The changes to the tariffs will impact customers differently. The low income earners will be impacted lower than middle income and high income earners. We have simulated the above as an example of the impact the proposed tariffs adjustments will have on individual accounts.

RECOMMENDATION by the Municipal Manager

1. That Council approves the annual budget for public participation.